

the 1981
White House
Conference
on
Aging

1088

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Report of
Technical Committee
on
**CREATING AN AGE INTEGRATED
SOCIETY: IMPLICATIONS FOR
THE ECONOMY**

NOTE: The recommendations of this document are not recommendations of the 1981 White House Conference on Aging, or the Department of Health and Human Services. This document was prepared for the consideration of the Conference delegates. The delegates will develop their recommendations through the processes of their national meeting in late 1981.

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FOREWORD

In the 1960s and 1970s, millions of Americans were lifted above poverty to a more decent and humane standard of living. The greatest single power behind that remarkable social achievement was steady job-creating and job-sustaining economic growth.

The 1980s are watershed years for our ability to sustain this economic growth. We are entering the decade with sluggish capital spending and an inflation level that erodes our willingness to save and invest and care for the neediest segments of our society. Productivity—that key indicator of economic vitality—continues to decline.

Our goal must be to fashion economic policies that will create a robust and growing economy and permit us to continue the social progress for all Americans.

Morrison H. Beach
Chairman

February 1981

I. CONCLUSIONS

We are convinced that a national objective to achieve continued improvement in the overall economic position of the elderly cannot be realized in the midst of a national economy confronted with high inflation, low saving, slow-growth, high unemployment and significant underutilization of productive capacity, much of which is in need of modernization if it is going to be competitive.

We view inflation, in particular, as an enemy of the elderly. It reduces the value of savings, depreciates the purchasing power of fixed incomes, and increases the cost of those goods and services that are critically important to the elderly—food, heating fuel and medical care. Moreover, when increasing inflation is combined with sagging productivity, the declining growth in everyone's standard of living erodes our national will and determination to address the remaining economic and social problems confronting the elderly. In this regard, the hardships of inflation fall doubly-hard on the neediest elderly.

For these reasons, the members of our Committee believe that particular strategies to achieve continued economic improvements for the elderly must be viewed in the context of a national commitment to address the fundamental ills of our current economy. And while we may differ as to the best measures that ought to be taken to assure a strong economy, we are unanimous in our conviction that strong and sustained economic growth is essential to the current and future well being of the elderly. A larger and stronger economy will increase our nation's ability to help disadvantaged groups. It will reduce inflation, with its corrosive effects on retirement income and national cohesion, and serve as a hedge against unforeseen economic events, and, thereby, provide and protect jobs—the best assurance of an adequate retirement income.

Within the broad context of a national commitment to economic growth, we specifically conclude that:

The country should start now to expand employment opportunities for the elderly. Studies conducted for the committee showed that as the number of younger workers entering the workforce slows during the 1980s, new work opportunities would allow the elderly to improve their economic and general well being, and contribute to overall economic growth without adversely affecting the employment opportunities of younger workers.

While the benefits of expanded employment opportunities will be concentrated among those elderly willing and able to work, studies show that, when spread across the entire elderly population, this expanded employment may mean almost \$500 a year (1980 dollars) additional income by 2005 for the average elderly household. For the economy as a whole, Real Gross National Product may be improved by almost 4%. And this expanded economic growth could mean about \$40 billion (1980 dollars) more in Federal, State, and Local revenues by 2005 without increasing tax rates. These additional revenues can be used to increase assistance to the neediest segments of our population.

We believe that expansion of elderly employment can be achieved through a government-private sector partnership addressing such areas as elimination of job discrimination, re-training and re-education, and the restructuring of jobs to permit more flexible work arrangements. While expanded elderly employment opportunities will not be the answer for all elderly groups, and may not be suited to certain industries, we believe it is a sound strategy for the nation.

Government and the private sector should work together to encourage and foster increased personal saving. Committee studies of increased personal saving have shown that a substantial increase in personal saving will be necessary before personal saving can significantly add to elderly income.

We believe that individuals, during their younger and middle years, should be encouraged to take greater personal responsibility for their economic well-being in retirement. Yet, chronically high inflation and government policies that favor spending over saving have helped produce the opposite behavior. Thus, while almost 81% of Americans express a strong desire to save, only 39% are actually able to save on a regular basis.

We believe that government should create additional incentives to promote personal saving. We also believe that American business, as employers, can help their employees to save through making financial planning and savings and investment programs available. In combination, we are confident that such initiatives will, as has occurred in other countries, dramatically increase the personal saving of individuals, particularly at middle and upper income levels. These increases can add to retirement income security.

Only an increased income transfer program targeted on the poorest elderly can quickly and significantly reduce income inadequacy. Committee studies have clearly shown that strategies for improving the economic status of the elderly which depend upon expanded elderly employment and increased personal saving cannot solve the income problems of those elderly groups least able to participate—the frail elderly, elderly women and minorities, and others who today are frequently without significant employment histories. For the same reason, many current and future elderly groups who live outside our economic mainstream cannot directly share in the benefits of policies expanding economic growth.

We believe the country should commit itself to providing the neediest elderly with a truly adequate income. For example, this would be an income consistent with the Bureau of Labor Statistics Intermediate Budget for Retired Couples. Our studies indicate that the initial cost of such an income transfer program would be almost \$19 billion

(1980 dollars) in 1981, but might decline to about \$12 billion (1980 dollars) in 2005. If paid for by increased taxes, such a program would not have a significant effect on the overall economy; however, it would increase personal taxes throughout the 1980-2005 period, starting at about \$160 for every person in the labor force in 1981.

These costs underscore the need for expanded economic growth to create both the economic capacity and national will to provide the elderly with adequate income. We have already cited, for example, that increased elderly employment could add as much as \$40 billion (1980 dollars) to Federal, State and Local coffers by 2005 without the need of additional taxes. These monies could be used to expand our assistance to the neediest among us.

The country should pursue policies encouraging increased domestic private investment aimed at improved productivity and economic growth. Committee studies of investment oriented corporate tax measures (increased investment tax credits and liberalized depreciation schedules) showed significant potential gains for the economy. The more than 15% increase in business investment which results from such tax measures is expected to add more than 4% to Gross National Product by 2005 and reduce the inflation rate by about 0.3% beginning in the latter part of the 1980s.

For individuals, by 2005, this added growth is expected to produce about 1% more income for the elderly and almost 3% for non-elderly groups. Although non-elderly groups realize greater income improvements, some of this added income could be transferred to the elderly and still leave all age groups substantially better off than they would be in a slower-growth economy.

Although we did not study increased personal saving in conjunction with investment oriented corporate tax measures, these policies may be mutually reinforcing. While personal saving will

make more capital available, it may not, alone, guarantee a level of investment adequate to achieve strong economic growth. Therefore, linking personal saving with policies promoting investment can provide greater assurance that available capital will be put to timely use.

It should be noted that other approaches to investment and economic growth—ones that stimulate consumer demand, for example—may also have potential for expanding the growth and productivity of the economy, although they may have somewhat different inflationary ef-

fects. While our studies focused on investment oriented corporate tax measures, this should not be construed as an endorsement by the committee. We are, however, unanimous in the priority we attach to promoting economic growth.

We believe that these broad recommendations represent a sound economic strategy within which to fashion the detailed policies and programs—both public and private—that can lead to an age-integrated society and thereby provide a better life for current and future generations of elderly Americans.

II. OBJECTIVES

Progress has been made over the past two decades in increasing the real income of the elderly and improving their economic status relative to the rest of the population. These gains, in part, reflect improvements in Social Security, private pensions, other income and in-kind assistance programs, which were all made possible by a growing and more productive economy. They also grow out of an increased awareness of personal and social responsibility toward the elderly.

Despite this progress, problems remain. While poverty among the elderly has been significantly reduced, many continue to lack adequate incomes. In particular, the decades of discrimination, poverty, unemployment, limited education, and lack of comparable compensation have denied many older women and minorities the skills, the work and earnings experience, and often the health, necessary to secure and maintain a decent standard of living in their older years. For these same reasons, such elderly individuals are not in a position to avail themselves of employment opportunities. And those elderly who can work, and who want to, frequently face discriminatory practices and retirement policies that encourage withdrawal from the workplace before they are ready.

We believe that it must be the objective of national policy to achieve continued improvement in the overall economic position of the elderly, with special attention to those among the elderly who are the most vulnerable: the frail elderly, minorities, and elderly men and women with few employable skills.

Our challenge is to achieve this objective in an aging society—to forge policies that will achieve gains for current and future generations of elderly without creating inter-generational conflicts. All Americans have a stake in this goal, for virtually all of us desire to secure the well being of our parents and to provide for our own old age.

It is our unanimous belief that no single strategy or policy can adequately address the diverse economic needs of the elderly. Rather, a combination of strategies—involving personal, business, and governmental initiatives—is needed. The requirements of those elderly in good

health and with strong desires and capabilities to continue employment are far different than the needs of the frail elderly or those elderly with low incomes and few employable skills.

Our specific objective was to develop a number of economic strategies that in combination could address the diverse economic and social situations of current and future generations of elderly Americans: We saw this combined strategy* as consisting of four key parts:

- 1) **Expanded elderly employment opportunities** to benefit the elderly willing and able to work and the economy as a whole;
- 2) **Increased personal saving** viewed both as a supplemental source of retirement income for those people able to save and as a source of capital to help finance general economic growth;
- 3) **Expanded income transfer payments** targeted on those elderly most in need and least able to provide for themselves; and
- 4) **Measures aimed at promoting improved productivity and economic growth**, which might directly benefit all segments of our population and, in particular, increase the capacity of our economy to meet the needs of the elderly.

Each part of our combined strategy was targeted to a particular problem, opportunity, or various segments of the elderly population. With so many elderly expressing a desire to work, and with the number of young labor-force entrants likely to decline in the future, we asked, "What would be the impact on the economy and the economic status of the elderly, if older Americans were once again encouraged to remain active in the workforce?"

In recent years, personal saving has declined sharply in America. On an individual level, saving allows persons—especially those at the middle and upper income levels—to at least partially provide, during their working years, for their retirement income. Personal saving can also provide capital that may be used to expand invest-

ment and increase the productivity of the economy. We, therefore, asked, "What would happen if currently depressed saving activity could be brought back to the higher levels of the 1960s and early 1970s?"

Expanded employment opportunities cannot really help the elderly worker who is physically wasted after years of backbreaking work, or the frail elderly person, or the elderly woman or minority who never developed the skills or employment history to make themselves employable. In particular, among older elderly persons—a group consisting largely of single elderly women living alone—expanded employment opportunities is not the answer. And increased personal saving cannot impact on the current generation of elderly, who are no longer earning significant wages. Nor can it help those future elderly who will not have significantly participated in the workforce or those who have lived on low incomes during their younger and middle years. For these needy elderly improvements in economic well-being can only come from increased public income transfer payments. Therefore, we asked, "What

would be the economic impact of assuring a more adequate minimum income for all of the elderly by means of a public income transfer program?"

Finally, we wanted to address the impact of economic growth directly. Although there are various approaches towards stimulating economic growth, we focused on investment oriented corporate tax measures. Such measures have been proposed recently as an effective means for promoting business investment which, if targeted to improvements in productivity and our international competitive status, could promote expanded economic growth and enhanced productivity. We, therefore, asked: "How would corporate tax measures aimed at increasing business investment influence the economy and the position of the aged?"

*Note:

A supplementary statement by Committee Members Thelma Zwerdling and Bert Seidman on personal saving, transfer payments and economic growth measures is contained in the back of this report.

III. METHOD AND STRATEGIES

Through a grant from the Corporation for Older Americans, our Committee was able to secure the services of Data Resources, Inc. (DRI), one of the nation's most prominent economic consulting firms. Our first charge to DRI was to develop a picture of future economic conditions assuming current policies and social trends prevail. We wanted this "baseline" picture so we could have a basis against which to measure the impact of new strategies. We then asked DRI to study the impact of each part of our combined strategy on the economy as a whole and on older Americans in particular.

The DRI studies were conducted using modern economic forecasting methods and looked out 25 years to the Year 2005. The results provided us with detailed information regarding the overall economy and the income position of various elderly and non-elderly segments of the population. These forecasts are largely based upon a knowledge of the past which, because of rapid changes in the world—social, economic and political—is no longer as reliable a guide to the future as perhaps it once was.

Although based upon strategies suggested by the committee, DRI is wholly responsible for the analysis underlying these results. While members of our Committee do not necessarily subscribe to this analysis, and some members, in fact, disagree with parts of it, all of us felt that the DRI effort provided a useful backdrop against which to reach our conclusions.

Time and resource constraints limited the number of policies that the Committee could study. Therefore, an attempt was made to define general policies representative of a broader group of more specific policies. The Committee hoped this approach would provide information that other technical committees and the White House Conference could apply to a wide range of policy questions. In the paragraphs below, we describe the key assumptions used in the various economic forecasts.

Baseline Forecast

The baseline forecast used for our analysis is based on DRI's most recent 25-year projection of the aggregate economy prepared

for national release in September 1980. The baseline forecast assumes population growth consistent with the Bureau of the Census Series II population projections. This projection assumes that from 1980 to 2015, the fertility rate increases from its current level of 1.7 to 2.1. It also assumes some small improvement in mortality and net immigration of 400,000 per year. These assumptions lead to total U.S. population forecasts of 244 million by 1990 and 268 million by 2005 and a significant slowing in labor force growth. The latter primarily reflects slower growth in the prime age population and in labor force participation rates. As regards the elderly, the forecast assumes that labor force participation of the elderly will continue to decline, as it has for several decades, despite higher inflation, an increase in mandatory retirement age and a decreasing supply of younger workers.

In regard to fiscal policy, the baseline forecast assumes several conflicting forces operating on the public sector, including: public resistance to further increases in taxes; increased defense spending; lower growth in demand for state and local services; and a continuing need to provide some measure of income adequacy for the poor. Under these conflicting forces, the share of the federal budget in GNP is expected to fall only slightly. On the other hand, income transfers to persons are expected to grow at only 3.5% per year from 1980 to 2005, down sharply from the 8% rate experienced from 1965 to 1980. Nevertheless, they are expected to grow both as a percentage of GNP and as a percentage for the total Federal budget. Similarly, defense spending is expected to rise both as a percentage of GNP and the Federal budget.

The baseline projection also assumes a tax cut of \$32 billion enacted during 1981 consisting of both personal (\$25 billion) and investment oriented corporate (\$7 billion) tax cuts. Beginning in 1984, discrete personal income tax cuts are assumed every second year. These cuts partially offset "bracket-creep" increases in taxes brought about by inflation. However, despite these cuts, the effective Federal personal income tax rate is projected to rise from 14.2% in 1980 to 17.6% in 2005.

Finally, the baseline forecast assumes that oil supplies will continue to be tight throughout the next 25 years, resulting in energy price inflation of 3-4% above the overall rate of inflation.

Expanded Employment Forecast

In this forecast the impact of reversing the decline in labor force participation among the elderly, which has been occurring for decades was examined. Specifically, the forecast assumed that labor force participation rates among four elderly and non-elderly groups increase over the next decade to the levels of 1970. The four groups considered were: women aged 55-64; men aged 55-64; women 65 years and older; and men 65 years and older. The assumption was that the labor force participation rates of these groups rises over the next decade at the same average rate at which they declined after 1970. Other assumptions in this forecast were the same as in the baseline. The results of this forecast can be used to explore the impact of increased elderly employment without specifying exactly how such increases are brought about.

Increased Personal Savings Forecast

In this forecast, it was assumed that over the next three years, personal savings as a percent of income gradually rises to about 2 percentage points above the rate used in the baseline. This increase would correspond to a return to the saving rate experienced over the late 1960s and early 1970s. The forecast assumes that this increased saving is distributed among assets (such as savings and loan deposits, stocks, bonds, etc.) in approximately the same proportion that total saving is currently distributed.

Because of our interest in increased saving as it might provide for added retirement income, it was assumed that all the increased saving would be done by those under age 65, and that interest income derived from such new saving would be treated as ordinary income.

The degree to which increased personal saving is eventually transformed into increased domestic fixed investment is an issue of great controversy among

economists. The issue revolves around the degree to which reduced consumer demand (resulting from increased earnings) drives down investment in comparison to the increased investment that should result from a larger supply of capital. In this forecast, it is assumed that three-quarters of the increased personal saving is translated into domestic fixed investment, distributed two-thirds to business fixed investment and one-third to housing. Other assumptions are essentially the same as in the baseline.

As with the forecast of increased elderly employment, the forecast of increased saving did not specify why such additional saving might occur. Different policies encouraging savings would, of course, have somewhat different implications for the economy. Nevertheless, it was felt that the analysis could provide results that would be indicative of the impact of a number of such policies.

Investment Oriented Tax Measures

In this forecast, the long-term consequences of a highly specific policy aimed at stimulating economic growth were analyzed. The corporate tax cuts involved include an increase in the investment tax credit from 10% to 18%, and a reduction (liberalization) in the average allowable depreciation tax lifetimes for equipment and structures from 8.1 to 5.6 years and 19.8 to 17.3 years, respectively, compared to the baseline. These tax cuts would amount to \$12 billion in 1981 and grow to \$46 billion by 1986. Corporate tax cuts of this type have a double-barreled effect: they directly affect the incentive to invest, and they also increase corporate cash flow—the major financing source for business investment. Half of this corporate tax cut is assumed to be financed by reduced Federal spending, in particular, through cuts in grants-in-aid to state and local governments; the other half, at least initially, by means of a larger Federal deficit.

Corporate tax modification have been proposed by some policy makers as an effective means of promoting investment, and consequently, raising productivity and economic growth. The goal in this forecast

was to determine the extent to which economic growth is, in fact, increased and the degree to which the elderly share in it.

Expanded Income Transfers

In this economic forecast, we analyzed the impact of guaranteeing the elderly a minimum level of income. Specifically, it was assumed that new Federal transfers would be established guaranteeing all elderly families the BLS Intermediate Budget for

a Retired Couple (\$8,562 in 1979) and an equivalent budget for single elderly individuals (\$4,941 in 1979). It was assumed that these new transfers would be financed by increased personal tax revenues. In the baseline it was assumed personal tax reductions to partially compensate for inflation induced "bracket-creep": thus, in this forecast, these bracket-creep personal tax reductions are, in fact, reduced.

IV. FINDINGS

In this section, we present extractions and analyses of major DRI findings. These findings, along with other information, were reviewed by our committee in terms of their implications for current and future policy actions. The results of our review, developed as key committee conclusions, follow each major finding.

IF GOVERNMENTAL POLICY TOWARD THE ECONOMY AND THE AGED DOES NOT CHANGE, THE FUTURE MAY BRING THE FOLLOWING

1. *Real Gross National Product (GNP) and consumption growth will slow substantially from the rates achieved in the 1960s and 1970s, while inflation will moderate only slowly.*

The baseline analysis of the future performance of the economy is summarized in *Table 1*. Average annual growth in real GNP is projected to decline from 3.1% in the 1965-1980 period to 2.5% over the next 25 years. After a period of moderate growth, coinciding with economic recovery from the current downturn, the growth rate is expected to decline continuously into the early 1990s. The economy in the 1990s is expected to grow at a little more than half the rate of the 1960s.

Potential GNP per person rose by an annual average of 2.6% in the 1960s. But this figure is projected to decline to about 1.6% by the mid-1990s. This decline in potential output per person suggests that expectations of income improvements matching those achieved historically will be unrealized.

This sluggish growth reflects a significant decline in labor-force growth and a continuing low relative level of investment in business plant and research and development.

The historical and projected growth in the labor-force is illustrated in *Figure 1*. Since 1970, the proportion of the population over age 18 has increased from 66.0% to 72.1%, swelled by the maturing of the post-war baby boom generation. Since the last baby boom children were born around 1960, the number of potential young new workers is already slowing. These numbers will decline for

many years. Thus, the average annual increase in the labor force is expected to decline to about 1.1% during 1980-2005 compared to the 1.9% average growth achieved during 1965-1980.

Key Economic Parameters
Under Current Policies
(Percent)

	1955-1980	1981-2005
Avg. Real GNP Growth	3.1	2.5
Avg. Inflation (Implicit GNP Deflator)	4.5	6.9
Avg. Unemployment Rate	5.5	6.3
Avg. Growth in Industrial Production	3.7	3.6
Avg. Labor-Force Growth	1.9	1.1
Avg. Fuel Import Bill (Percent of GNP)	0.9	3.7
Avg. Tax Burden (Percent of GNP)	29.5	34.1

Table 1

The silver lining in this rather pessimistic baseline economic outlook is that the underlying rate of inflation is expected to decline from 9-10% in 1981 to 7-8% in 1990, and to as low as 6% from 1995 on (*Figure 2*). This improving inflationary outlook reflects improvements in productivity resulting largely from anticipated increases in the rate of capital investment by business.

With labor growth declining in relation to capital, productivity per worker is expected to increase. Of course, inflation could be far worse than this outlook suggests if some of the unfavorable "shocks" we have experienced over the past 15 years

Rate of Labor Force Growth
Baseline Projection
(Percent Change)

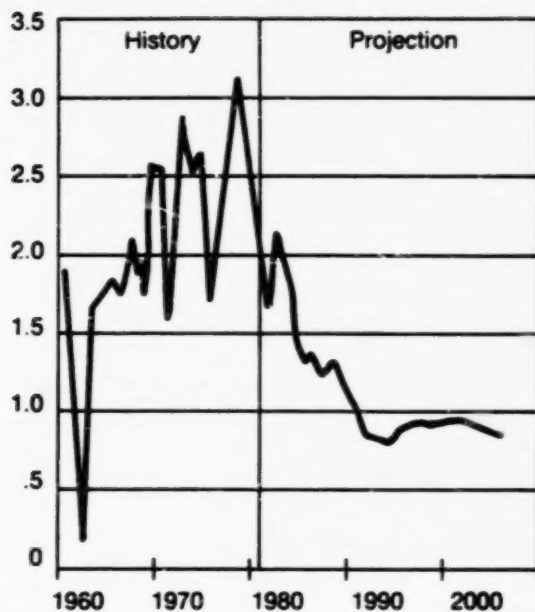


Figure 1

reoccur. While the baseline outlook has not accounted for such shocks, they can't be ruled out and their occurrence could have severe repercussions for many aspects of the economy.

2. *Real income of the elderly grows at a much slower pace than in the past and the income position of the elderly relative to the non-elderly deteriorates.*

Figure 3 illustrates the historical experience and projected outlook for the average income of the over 65 segment of the population compared with younger age groups. Real income of the elderly has grown at an annual rate of 2.4% since 1967, significantly higher than the income growth of the non-elderly. In 1967, the average person over age 65 had only about 49% of the income of the average person under age 65. This figure increased to about 55% by 1980. Improvements in private pension programs and Social Security benefits account for most of these income gains for the elderly.

The Core Rate of Inflation
(Percent)

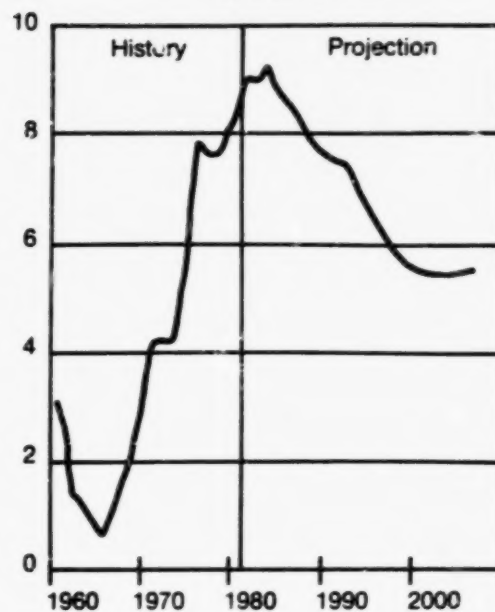


Figure 2

Over the next 25 years, average income growth of the elderly is anticipated to slow to about 0.8% annually. Several key factors account for this expected decline. The first is the slowdown projected for the economy as a whole. The fortunes of all segments of our population are more or less linked to the success of the economy. As a general fact, however, economic growth, though slow, will primarily benefit the younger, working population. The second is that the baseline outlook assumes a continuation of the protracted declines that have occurred over the past 30 years in the labor force participation rates of elderly men and women. Such a continued decline would lower future wage earnings of the elderly. Figures 4 and 5 illustrate both the historical and projected patterns of elderly labor force participation. While a continued decline is a distinct possibility, these projections are highly uncertain.

Chronic high inflation, the dramatic increase in employment among

Average Income of Those Over Age 65
Relative to Those Under 65
Baseline Projection

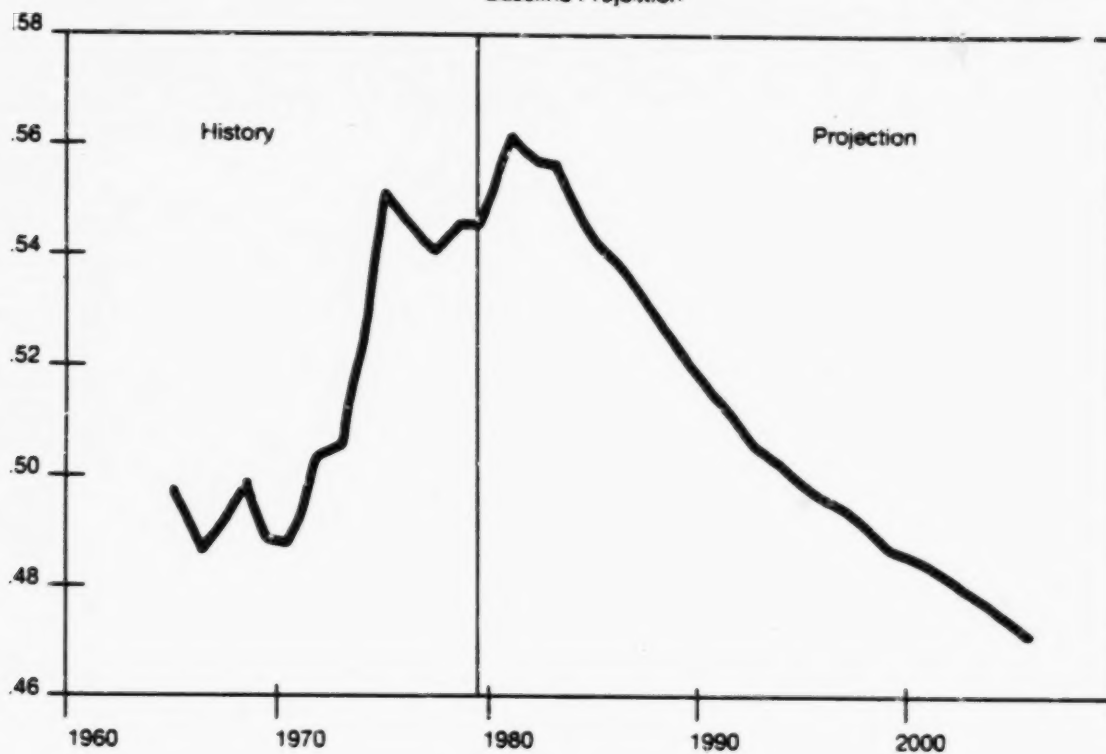


Figure 3

Labor Force Participation Rate
Men—Age 65 and Older

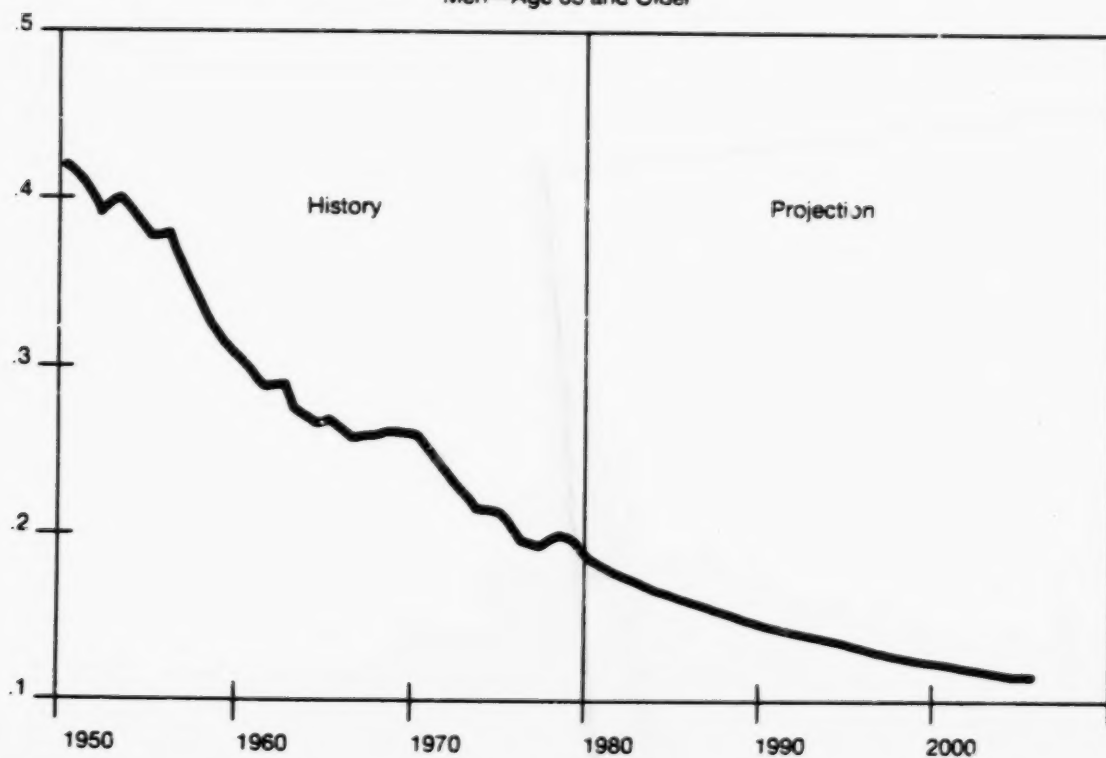


Figure 4

**Labor Force Participation Rate
Women--Age 65 and Older**

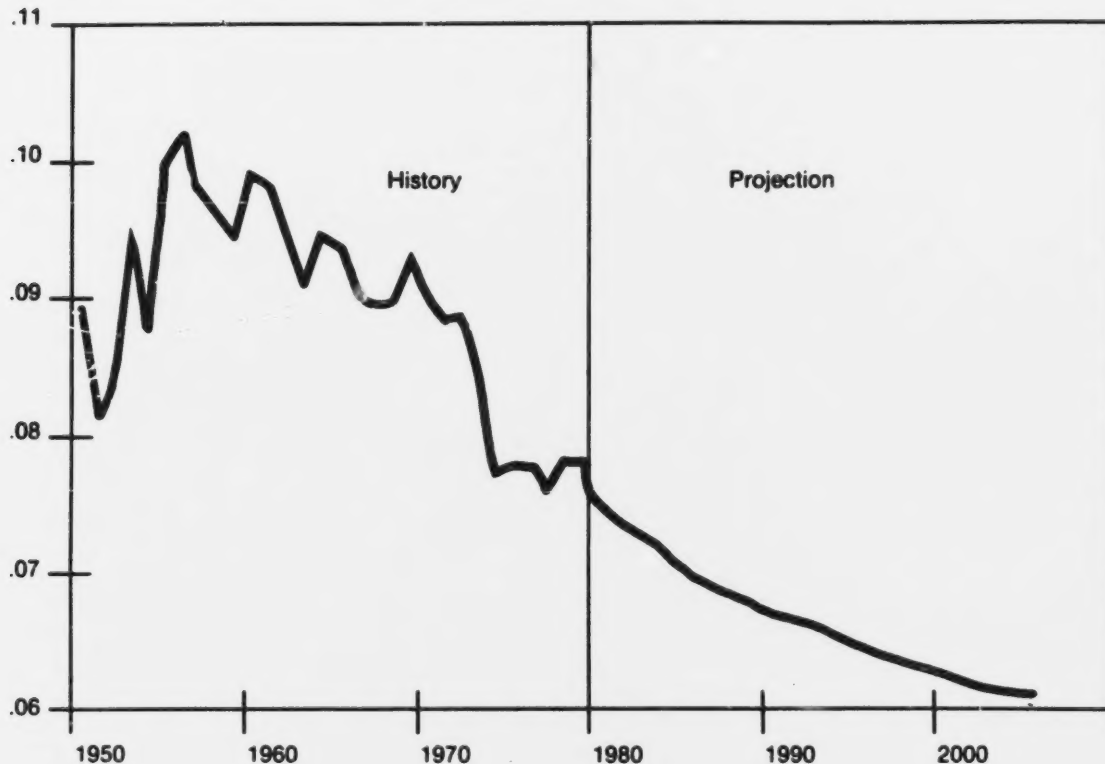


Figure 5

women, the raising of the mandatory retirement age from 65 to 70, and the shrinking supply of younger workers may all act to reverse these long-term trends without any overt changes in national policy.

Finally, a slowdown in the growth of transfer payments is anticipated. While transfer payments grew in real terms at an average rate of 8.5% from 1953 to 1979, pressures to hold down government's share of total domestic spending are projected to reduce this growth to 3.2% annually over the 1990-2005 period. Insofar as

the elderly have a large stake in such transfers, their real and relative income growth will suffer.

In combination, by the year 2005, these effects are likely to reduce the average income of people over 65 to about 47% of the average for the non-elderly. Viewed from another perspective (*Table 2*), while the proportion of the population over age 65 will increase from 11.2% to 12.1% from 1980 to 2005, their share of total national income will decline from 11.6% to 9.6% in 2005.

**Total Income Received by Elderly
Families and Singles as Percentage of Income of All Households**

	1980	1985	1990	1995	2000	2005
Elderly Income (Billions 80's Dollars)	198.1	228.0	259.9	285.6	301.8	318.6
Elderly Share of Total Income	11.6	11.1	10.8	10.6	10.1	9.6

Table 2

The percentage of the elderly with inadequate income declines significantly. Some substantial income adequacy problems remain.

The proportion of elderly people with incomes below the conventional definition of poverty has declined sharply in the past two decades (Table 3). Over the period 1959-1977, for example, the proportion of people age 65 and older living below the poverty level declined from 35.2% to 14.1%. However, as Table 3 indicates, minorities and individuals living alone did not fare as well as other elderly groups.

While these improvements are encouraging—and are often cited as evidence that the income problem of the elderly has largely been eliminated—most people agree that conventional poverty standards fall short of even a modest standard of income adequacy. Therefore, for purposes of measuring income adequacy, DRI's studies have used the Bureau of Labor Statistics (BLS) Intermediate Budget for a Retired Couple (\$8,562 in 1979) and a related measure for individuals (\$4,941 in 1979). Although significantly higher than the conventional standards used to measure poverty, the BLS standards hardly allow for a lavish existence (Table 4).

Using these higher adequacy standards reveals a far more serious income adequacy problem among the elderly than is typically reported. DRI's analysis indicates that the percentage of elderly with incomes falling below the BLS standards in 1979 were 53.7% for individuals and 34.8% for families. As a result of general economic growth, these figures are expected to decline to 38.3% and 23.0%, respectively, by 2005.

While the proportion of the elderly having inadequate incomes is expected to decline significantly, the number of elderly households with inadequate incomes is expected to remain fairly constant (Table 5). This is

due to the sharp increase in the numbers of people age 65 and older between 1980 (24.9 million) and 2005 (31.8 million).

Incidence of Poverty Among The Elderly
(Percent Below Poverty Level)

	1959	1970	1975	1976	1977
Total 65 +	35.2	24.6	15.3	15.0	14.1
White	33.1	22.6	13.4	13.2	11.9
Black	62.5	47.7	36.3	34.8	36.3
Spanish Origin	N/A	N/A	32.6	27.6	21.9
In Families	26.9	14.8	8.0	7.9	7.8
Unrelated					
Individuals	61.9	47.2	31.0	30.3	27.3
Male	59.0	38.9	27.8	25.9	23.6
Female	63.3	49.8	31.9	31.5	28.4

Sources: Current Population Reports

Table 3

Intermediate Level Budget for a Retired Couple
Urban United States
Autumn 1979

Total Budget ¹	\$8,562
Total Family Consumption	8,047
Food	2,507
Housing	2,862
Transportation	820
Clothing	378
Personal Care	247
Medical Care	842
Other Family Consumption	390
Other Items	515

¹ Income Taxes are not included in the budget.
Source: Bureau of Labor Statistics

Table 4

Elderly Households (000's)
With Inadequate Income

	1980	Projected Under Current Policies 2005
Elderly Individuals	4,249 (53.7%)	4,220 (38.3%)
Elderly Families	3,004 (34.8%)	2,451 (23.0%)
Total Households	7,253	6,671

Table 5

The expected improvements in income adequacy result from comparing improving real income with a fixed standard of adequacy. In this regard, it is questionable whether any standard of income adequacy will or should remain fixed in real terms in the face of overall improvements in the standard of living. For example, DRI's projections of average income for elderly families between 1980 and 2005 indicate an increase from \$16,608 to \$20,746 (1980 dollars). It is possible that the standard of adequacy itself may undergo upward movement during this period. If this is the case, then the problem of inadequacy may loom even larger than these results suggest.

4. *Income differentials between various segments of the elderly population continue to diminish, with elderly women gaining the most ground.*

Average income figures for the elderly as a whole tend to mask income differentials that exist between various segments of the elderly population. Table 6 illustrates the baseline projections of average elderly income for families, and for single individuals by age groups. For example, in 1980 an elderly woman had an average income that was only about 85% of an elderly man's income. People 72 and older had significantly lower income on average than younger segments of the elderly population. This was especially true for older elderly women.

Looking ahead, some narrowing of these gaps is expected. The average income of elderly women relative to elderly men is expected to improve from the 85% level in 1980 to more than 91% in 2005. Older elderly women, in particular, will realize significant gains relative to other elderly groups. Labor force participation of elderly men, declining rapidly in recent years, is expected to continue to decline at a faster pace than the expected decline for elderly women. This trend accounts for some of the income improvement of elderly women relative to men.

Average Income of Elderly Families and Singles by Age Group Under Current Policies (In Real 1980 Dollars)

	1980	1990	2005
Single Men			
65 to 71	8,369	9,078	10,094
72 +	7,454	8,101	9,042
All 65 +	7,850	8,537	9,517
Single Women			
65 to 71	7,297	7,989	8,998
72 +	6,255	6,885	8,528
All 65 +	6,658	7,303	8,703
Families			
65 to 71	18,019	19,925	22,270
72 +	14,984	16,675	18,874
All 65 +	16,608	18,452	20,746

Table 6

But the dramatic increase in labor-force participation among non-elderly women is the key factor. As large numbers of women with significant work experience move into the elderly ages, their work-related entitlements to Social Security and private pension benefits will boost average income. This result, however, will occur gradually because women in their 40's and early 50's—the oldest ages at which significant increases in labor force participation have been occurring—will not be reaching retirement age until the late 1990s.

The largest income differentials exist between singles and families. Families with elderly householders have average income more than double that of elderly singles. Yet, an elderly single living alone requires well over 50% of the income of an elderly couple at similar living standards. Since women tend to live longer than men, there are proportionately large numbers of single women, with low incomes characteristic of singles. This situation exacerbates the apparent economic hardship of elderly women. The income gaps between elderly families and singles are expected to show little narrowing over the next 25 years.

The income differentials between various segments of the elderly population have particular significance for income adequacy (*Table 7*). While 53.7% of all elderly individuals currently have inadequate incomes (below \$4941 in 1979), fully 59% of single elderly women age 72 and older fall below this standard.

For older men, the corresponding figure is 49.8%. However, by 2005, this significant gap is expected to be eliminated. By that time, it appears that the incidence of inadequacy will be relatively independent of age and sex. Although this is a positive result, we can't lose sight of the substantial and continuing problem of income adequacy.

Percentage of Elderly With Inadequate Income
by Family Status and Age
Baseline Projection

	1979	1990	2005
Individuals			
Men 65-71	44.6	42.1	36.4
Women 65-71	49.6	45.8	38.8
Men 72 +	49.8	46.6	39.3
Women 72 +	59.0	52.1	38.1
All Elderly Individuals	53.7	48.7	38.3
Families with			
Head 65-71	29.1	24.1	18.6
Head 72 +	41.4	35.5	28.5
All Elderly Families	34.8	29.3	23.0

Table 7

Committee Conclusion

Based on the preceding findings, the Committee concluded that our national objective should be to continue the progress that has been made over the past two decades in improving the economic status of the elderly. Older Americans have made strong gains in average income since the 1960's, and further gains are expected in the years ahead. However, slow general economic growth, continued high inflation, and slower growth in income transfer programs are projected for the coming decades if current policy trends continue.

Under this outlook, future income gains of the elderly would come at an agonizingly slow pace. The elderly would not even share fully in the gradual gains achieved by the rest of the population. This might be acceptable to the nation if the elderly already enjoyed adequate incomes, but a large part of our older population still suffers from inadequate economic resources. In the future, our objective should be to promote larger gains in general economic well being and to insure that the elderly share substantially in these gains.

A GRADUAL INCREASE IN ELDERLY AND NEAR-ELDERLY LABOR FORCE PARTICIPATION MAY HAVE THE FOLLOWING EFFECTS

1. *The economy could show significant long-term improvement.*

The baseline outlook for the economy contemplates a continuing decline in elderly and non-elderly labor force participation. Thus, a gradual increase in these rates to the levels prevailing in 1970 would eventually constitute a significant increase in over-

all labor supply compared to the baseline. The 1970 participation rate of elderly men, for example, is more than twice as high as the baseline rate projected for 2005 (*see Figure 6*). Thus, by 2005, a return to 1970 for labor-force participation rates for the elderly would raise total employment 4.7% above the baseline.

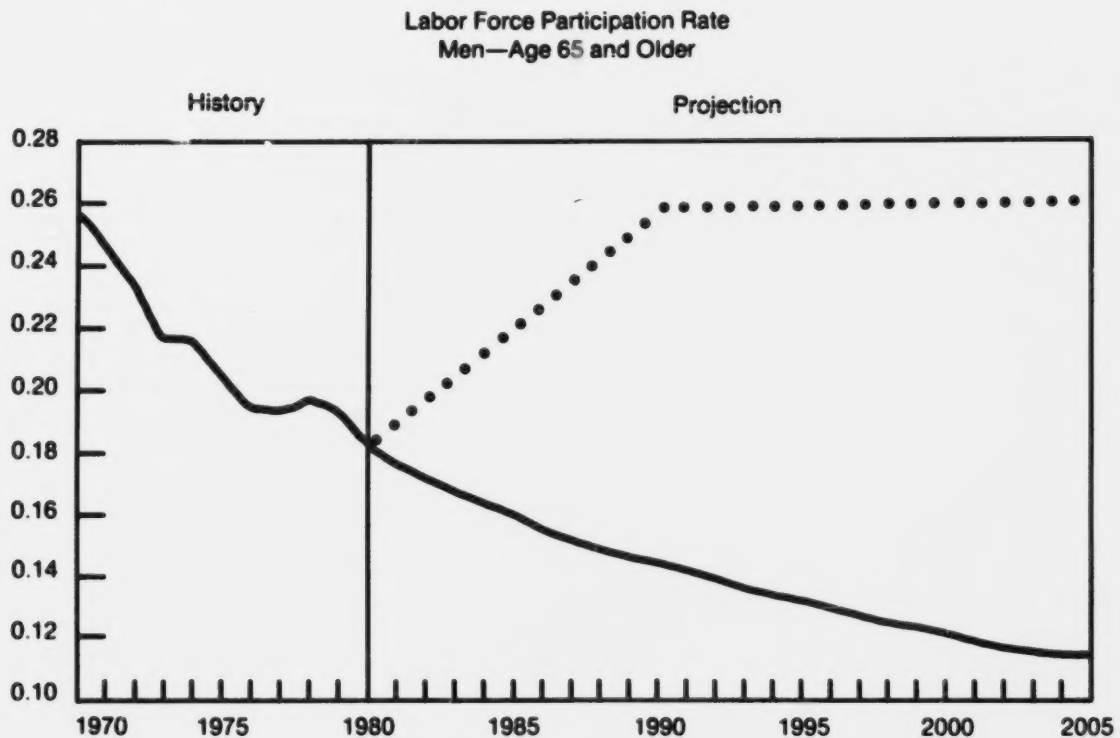


Figure 6

— Baseline Projection: Participation Rates Continue to Decline
..... Participation Rates Return to Levels of 1970

The effect of expanded elderly employment on the future performance of the economy is summarized in *Table 8*. The average annual rate of growth in real GNP is raised to 2.7% compared with 2.5% in the baseline. By 2005, this increased growth raises real GNP to 3.9% above the baseline. These results largely follow from the increased consumption generated by higher numbers of employed persons. Specifically, the average annual growth in consumption from 1980-2005 moves to 2.6% from the 2.4% growth rate projected for the baseline. This increased consumer demand also stimulates significant increases in business investment, despite large increases in labor supply and incentives to substitute labor for capital.

In the short-run, however, this economic expansion may add significantly to unemployment as the labor force grows faster than employment in an initially sluggish economy (see *Figure 7*). By 1985, the unemployment rate may be as much as 0.7 of a percentage point higher than in the baseline. The increased unemployment will be borne by the new elderly

and near-elderly job seekers who, in any event, will continue to receive their income entitlements from other sources. By the late 1980s, however, the economy is expected to become vigorous enough to absorb most of these new elderly workers. They, in turn, will help offset declines in labor force growth among the young and, thereby, fuel more rapid growth.

The expansion in economic growth is not accompanied by higher inflation. By the mid-1980s and thereafter, inflation averages about 0.2% lower than in the baseline. In the near-term, higher unemployment constrains growth in wages and mitigates against a surge in inflation. In the long run, inflation declines because of the more rapid expansion of productive capacity.

2. *Real income of those elderly and near-elderly willing and able to work increases substantially.*

Expanded labor force participation of the elderly and near-elderly will bring about significant gains in both real and relative income. By the late 1980's and thereafter, almost all of

Labor Force Participation Rates of the Elderly
Return to Levels of 1970
General Economic Effects
(Averaged Over Entire Projection Period)

	Baseline 1981-2005	With Higher Participation Rates 1981-2005
Average Annual Growth Rates:		
Gross National Product	2.5	2.7
Consumption	2.4	2.6
Investment	3.1	3.3
Government Spending	2.1	2.2
Disposable Income	2.4	2.6
Other Economic Aggregates		
CPI Inflation	7.5	7.3
Unemployment	6.3	6.5
Share of Personal Income in GNP (Percent)	81.9	81.8
Share of Transfers in Personal Income (Percent)	14.8	15.2

Table 8

**Unemployment Rate
(Five Years Averages—Percent)**

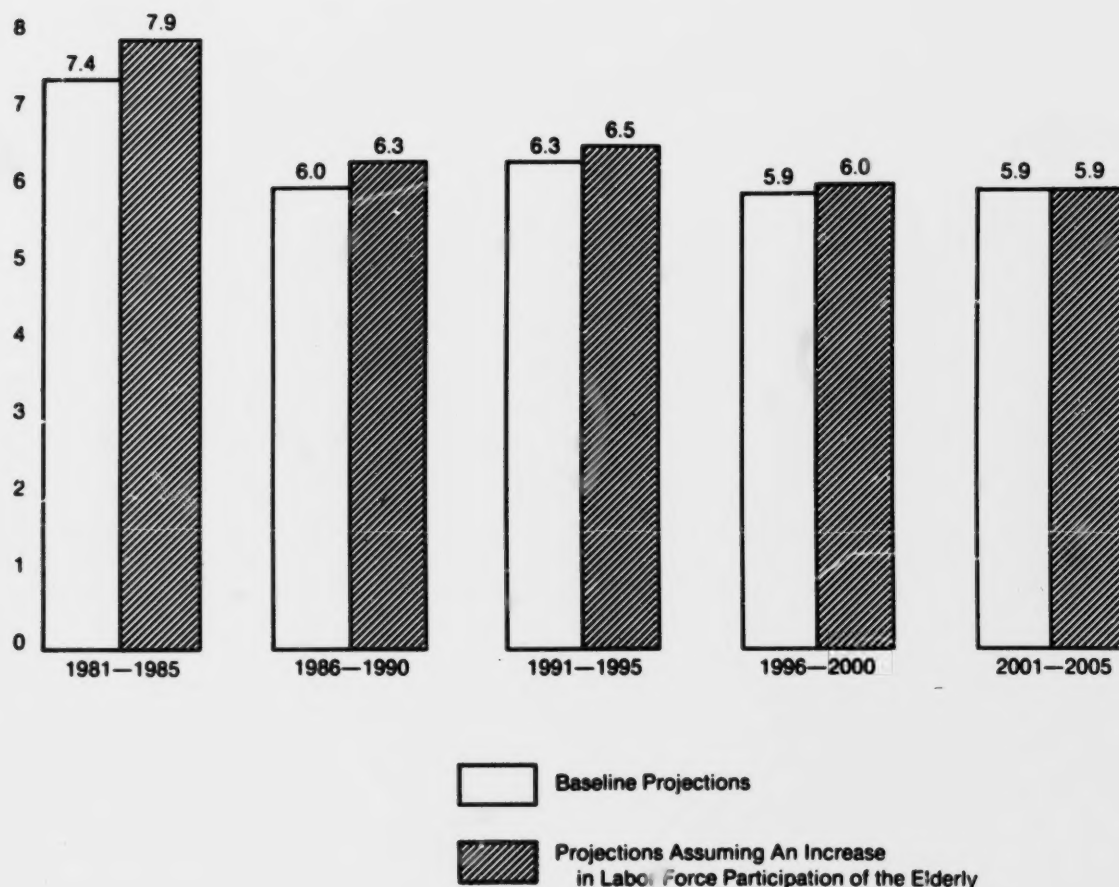


Figure 7

the new elderly and near elderly job-seekers are expected to find employment. For the average elderly household, this will add almost \$500 a year (1980 dollars) by 2005. Gains to the near-elderly, those between the ages of 55-64, will be even greater, averaging about \$1050 (1980 dollars) per household by 2005.

While not fully reflected in DRI's analysis, increased employment of the near-elderly can help them in their later years by providing greater income for savings. It can also help expand their opportunities to qualify

for private pension and Social Security benefits. Younger age groups gain less since the expansion of employment is presumed to occur at older ages. But the improved economy eventually benefits them as well, raising their average income by about \$100 (1980 dollars) in 2005. Since the elderly realize larger improvements in income, their average income position relative to the non-elderly increases from 47% to about 49% by 2005 compared to the baseline.

While significant gains in average income are achieved, these gains are not uniformly distributed among various elderly groups. *Table 9* illustrates this point. Although the average elderly household is better off by \$500 in 2005 compared with the baseline, elderly men ages 65-71 are better off by more than \$1000; elderly women, in the same age group, by about \$600. Conversely, elderly men age 72 and older are projected to have about \$436 more; older elderly women, less than \$300. In general, gains are larger for men than for women, and for the younger age groups among the elderly.

Impact of Increased Labor Force Participation of the Elderly
on Average Income of the Elderly
(In Real 1980 Dollars)

	1980	1990	2005
Single Men			
65 to 71	8,369	9,603	11,134
72 +	7,454	8,350	9,476
All 65 +	7,850	8,910	10,226
Single Women			
65 to 71	7,297	8,258	9,599
72 +	6,256	7,027	8,809
All 65 +	6,658	7,493	9,104
Families			
65 to 71	18,019	20,176	22,927
72 +	14,984	16,217	19,137
All 65 +	16,608	18,653	21,226
Difference From Baseline			
Single Men			
65 to 71	0	525	1,040
72 +	0	249	436
All 65 +	0	372	709
Single Women			
65 to 71	0	269	601
72 +	0	142	281
All 65 +	0	190	401
Families			
	1980	1990	2005
65 to 71	0	250	656
72 +	0	141	263
All 65 +	0	201	480

Table 9

It should be emphasized that gains in average income of the elderly may be misleading. The income of those elderly who postpone retirement or obtain new jobs will be increased substantially. For example, the average income of those additional elderly who are employed (beyond those assumed to be employed in the baseline) would increase in 2005 by \$4360 (1980 dollars). Those elderly who are unable or who choose not to work would receive no direct income gain.

Elderly men gain more than women because it was assumed that participation rates of the elderly return to 1970 levels.

At this earlier period, men had much higher participation rates than women. In actuality, it might be expected that future employment activity of the elderly would not be so heavily skewed towards men. Policies to encourage employment should be aimed equally toward women and men.

Although these results, in part, reflect the assumptions regarding improvements in labor force participation, they also underscore an important fact: **expanded employment opportunities for the elderly can only benefit those elderly groups in a good position to work.** In general, the older and poorer elderly—those without significant employment histories—will not be able to take full advantage of such opportunities. For this reason, expanded elderly employment opportunities do not have as large an impact on income adequacy as the improvements in average income suggests. In effect, expanded employment opportunities for the elderly—a boon for many elderly groups—leaves unsolved the problems of the poorest and most disadvantaged elderly groups.

3. *The improvement in the economy can significantly expand the nation's capacity to support programs assisting the elderly.*

The expansion in the economy brought about by increases in elderly employment produces a significant increase in Federal revenues (fiscal dividend). However, this increase does not become significant until the mid-to-late 1980s, at which time the increasing elderly labor supply is almost fully absorbed.

In DRI's analysis, it was assumed that part of the potential increase in federal revenues would be used to increase government spending, while part would be given back in increased periodic personal tax cuts. By 2005, non-military purchases, grants-in-aid to states and localities, and transfers to persons have all been increased by 3.7% above the baseline. In addition, by 2005, personal income taxes would be reduced from the baseline 17.6% of taxable income to 17.1%. Under such a division of the fiscal dividend, transfer payments in 2005 would be above the baseline levels by \$14.3 billion (1980 dollars).

Since the bulk of transfers goes to the elderly, most of the incremental transfers could also be expected to flow to the elderly.

Of course, the actual division of any potential increase in Federal revenues would be determined by the future electorate, and it is unlikely that revenue increases would be divided exactly as assumed in our analysis. In fact, it is possible that the country would allow an even greater share of the fiscal dividend to flow to ex-

panded programs for needy segments of the elderly population, in particular those elderly groups which cannot take advantage of expanded employment opportunities.

Table 10 shows the potential for increased general revenues if effective tax rates are kept at baseline values. Increased revenue will accrue not only to the Federal government but also to state and local governments. By 2005, the combined potential for increased general revenues at all levels of government is over \$40 billion (1980 dollars).

This total does not include increases in contributions to social insurance programs (such as social security), which would be expected to flow almost entirely into transfer payments. Rather, these potential increases in general revenues reflect a considerable increased capacity to expand existing programs or initiate new programs to aid the elderly.

Fiscal Dividend From Increased Labor Force
Participation of the Elderly
(Billions of 1980 Dollars)

	Increased General Tax Receipts Assuming Effective Tax Rates at Baseline Levels	
	Federal Receipts	State and Local Receipts
1985	2.1	3.3
1990	6.1	5.2
1995	9.9	9.6
2000	16.9	14.2
2005	20.7	19.7

Table 10

Committee Conclusion

Based on the preceding findings, the Committee concludes that the country should start now to remove job barriers and to expand employment opportunities for the elderly. Both government and private sector initiatives will be needed to expand employment opportunities for those elderly willing and able to work. This policy is all the more important because labor force growth is projected to slow during the 1980s. Increased work opportunities would allow many older Americans to improve their economic and general well being, and contribute to overall economic growth without adversely affecting the opportunities of younger workers.

Although increased employment opportunities for the elderly will provide significant gains to those elderly in a favorable position to participate, other elderly will not be benefited directly. Many of those elderly not directly affected will be in the most need—the oldest and frailest elderly and those with minimal job skills. However, increased employment of the elderly will generate additional government revenues which could be used to increase aid to needy groups, including the elderly. This increased government revenue could amount to a significant resource if employment of the elderly returned to levels that existed just a decade ago.

OUR ANALYSIS OF INCREASED PERSONAL SAVING TO THE LEVELS EXPERIENCED IN THE 1960s AND 1970s INDICATES THAT

1. *Modest long-term gains in the economy and income of the elderly are expected.*

Personal saving in the U.S. has undergone a significant decline in recent years. As *Table 11* shows, since the early '70s personal savings as a percentage of disposable income has declined from 8-9% to 5-6%. The rate of personal saving is usually thought of as contributing to overall productivity and economic growth, so that a continued and protracted decline in savings is viewed by some as an alarming possibility.

The effects of an increase in personal saving activity (to the levels sustained in the late 1960s and early 1970s) on future economic performance is summarized in *Table 12*. While short-term effects are generally positive, DRI's analysis suggests that the initial effects of increased personal saving cause the rate of activity in the economy to fall relative to the baseline. The increase in personal saving produces a decline in con-

sumer spending sufficient to discourage some of the increased investment that might otherwise result from an expanded supply of capital. The net effect is short-term decline in economic activity. The magnitude of this decline may be extremely sensitive to short-term capital requirements. These requirements, in turn, are typically related to the extent to which the economy is operating at or near capacity.

Personal Savings As A Percent of Income	
1970	8.0
1971	8.1
1972	6.5
1973	8.6
1974	8.5
1975	8.6
1976	6.9
1977	5.6
1978	5.2
1979	5.2
1980	5.7

Table 11

Increased Personal Saving
Macroeconomic Effects
(Averages Over Entire Simulation Period)

	Baseline 1981-2005	With Increased Personal Saving 1981-2005
Average Annual Growth Rates:		
Gross National Product	2.5	2.6
Consumption	2.4	2.5
Investment	3.1	3.5
Government Spending	2.1	2.1
Disposable Income	2.4	2.5
Other Economic Aggregates:		
CPI Inflation (Percent)	7.5	7.1
Unemployment (Percent)	6.3	6.6
Share of Interest Income in Personal Income (Percent)	8.0	8.7
Share of Personal Income in GNP (Percent)	81.9	81.5

Table 12

In the current slack economic environment, it is possible that increasing personal saving to 1960s and 1970s levels could reduce GNP growth for several years. Thus, by 1983, real GNP could be down by as much as 0.8% relative to a baseline economy with lower saving. We regard this near-term result, however, as highly uncertain. The need for capital in the future may be determined more by needs to modernize and innovate than by the capacity surpluses or shortages that may have dominated yesterday's business investment decisions.

In any event, by 1986, real GNP is likely to have recovered from its initial decline, and thereafter would be expected to grow somewhat faster than the baseline as a result of pro-

ductivity improvements brought about by increased business investment. By 2005, real GNP is expected to be 2.5% above the level of the baseline, but substantially below the 3.9% improvement projected for an economy with increased elderly employment. As a result of increased investment and somewhat lowered consumption, inflation is expected to decelerate starting in the mid-1980's falling to 0.4% below the baseline by 2005.

The elderly will benefit from a reduction in inflation. But direct income benefits to the elderly as a result of increased personal savings may be a long time in coming (*see Figure 8*). The income of the elderly will improve as people who have engaged in the increased savings activity for a

Impact of Increased Saving Activity on Mean Income
Elderly and Non-Elderly
Difference from Baseline Projection
(1980 Dollars)

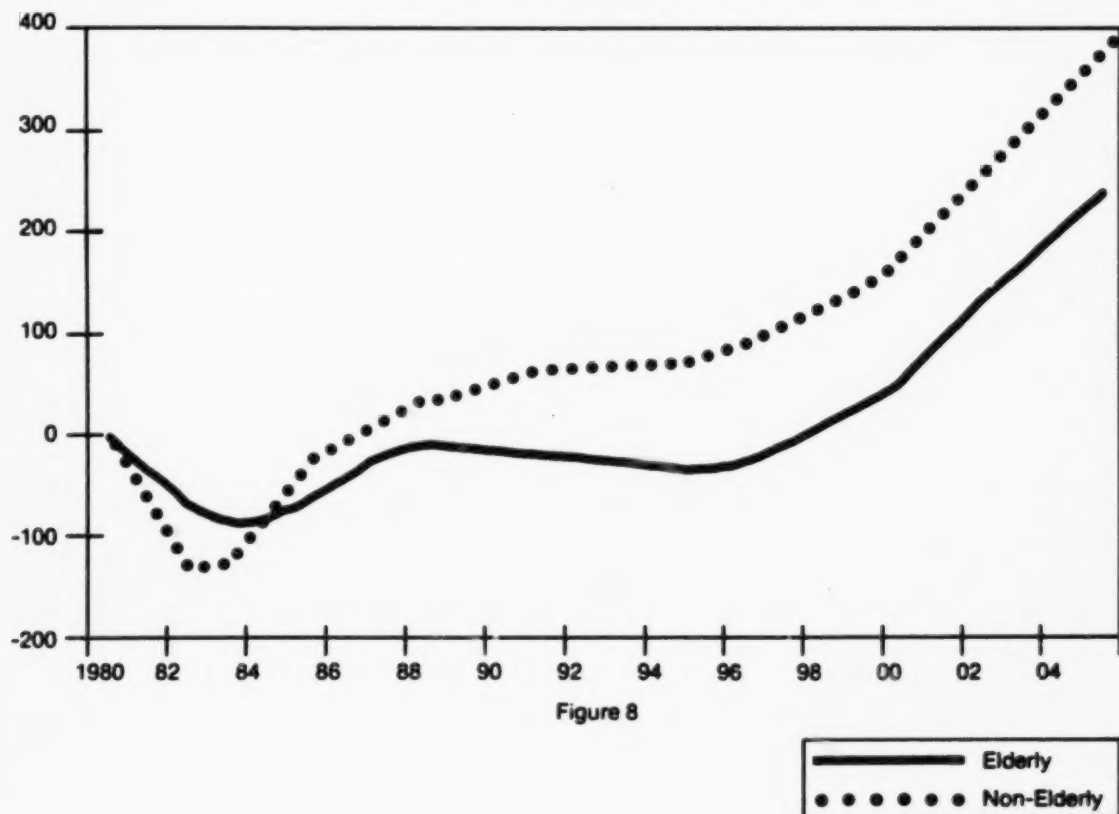


Figure 8

number of years reach retirement age. This relegates direct income improvement for the elderly to the future. In the short-run, elderly income is likely to suffer as a consequence of an initial decline in the economy. But even after the economy has recovered, it may take another 10 to 15 years before the income of the elderly shows even modest improvement compared to the baseline. During the 1990s, the gains in elderly income that might result from the gradual improvement in GNP are somewhat offset by a decline in the return on savings to investors resulting from an expanded supply of capital. Although there are some small income distributional and income adequacy effects, they too are small and relatively inconsequential.

2. *A radical change in savings behavior is necessary before personal saving can substantially add to elderly income.*

Even at higher levels of personal saving, Americans have typically spent most of the earnings on their savings instead of reinvesting them to increase wealth and potential retirement income. For this reason, DRI's analysis of increased personal saving does not show substantial income gains for the elderly as a result of accumulated assets. Considering only the direct effects of new savings, personal savings could be expected to increase the accumulated wealth of both the elderly and non-elderly population by \$5.9 billion (1980 dollars) in 1981, and about \$550 billion by 2005. The \$550 billion increase amounts to about 14% of the total personal income projected for 2005. Interest alone on this increased wealth increases aggregate income in 2005 by about \$35 billion, or only 1% of all income. While the elderly could also "dissave", that is, liquidate some of their accumulated wealth so as to add to their current consumption, such dissaving would not add appreciably to their income if spread over their life expectancy.

For individuals to accumulate substantial assets for their elderly years, therefore, it would be necessary to reinvest, not spend, earnings on their savings. While this represents a radical departure from current personal saving behavior, it could mean much higher personal savings rates as interest income on accumulated assets grows over time. There is debate on whether higher personal saving could be promoted during these inflationary times. But evidence exists that increases can result from appropriate tax incentives. Personal saving in Canada, for example, grew from less than 4.5% in the early 1960s to almost 11% in 1979 following a series of tax incentives instituted by the government to promote personal saving.

3. *The economic effects of increased personal saving could be improved if linked with other policies encouraging increased domestic private investment.*

Private investment in the economy depends upon many factors, including the level of consumer demand, the availability and cost of capital, and the need for more modern plant and equipment. Although an increase in the personal savings rate will surely decrease personal consumption in the short-run, its influence on business investment and, beyond that, to the economy as a whole will be linked to the general economic climate.

The record suggests that the levels of demand and utilization of productive capacity are greater determinants of business investment than the availability of capital. The short-term weakness in the economy suggested by DRI's analysis, which results from a sudden increase in personal saving, reflects this history as well as the fact that the economy is now operating below capacity. There is, however, a second emerging viewpoint today: that the crucial issue now facing American industry is "re-industriali-

zation", the need to modernize plant and equipment, not just increase capacity. This modernization requires large infusions of capital; therefore, an increase in personal saving could quickly flow into increased business investment, thereby minimizing or eliminating any short-term economic downturn.

Whatever the ultimate validity of these points of view, it is evident that increased personal saving will make

more capital available, but it may not, alone, guarantee a level of investment adequate to achieve strong economic growth. This suggests that increased personal saving should be linked with programs and policies that insure that available capital is put to use in a timely and effective manner. If new personal saving incentives are adopted by the government, this dual approach to increasing investment may be all the more essential.

Committee Conclusions

Based on our analysis of saving activity, the Committee concludes that government and the private sector should work together to encourage increased personal saving. We believe that individuals, during their younger and middle years, should be encouraged to take greater responsibility for their economic well-being in retirement. Unfortunately, chronically high inflation and government policies that favor spending over saving have helped produce the opposite behavior.

Our analysis suggests that it will not be enough to return current depressed saving activity back to previous levels. A radical change in saving behavior is necessary before personal savings can substantially add to elderly income. New government savings incentives, coupled with financial planning and saving and investment programs made available to employees by employers, could foster needed increased personal saving and increased personal responsibility for retirement income security.

These programs to encourage additional saving must be coordinated with policies to ensure that these savings are utilized fully. In addition to providing individual income security, increased saving provides opportunities to expand investment and future economic growth. However, these latter benefits may be lost in part if policies discourage business investment. If businesses are not given incentives to use increased savings for productive purposes, the result may be higher unemployment and smaller returns to individual savers.

IF GOVERNMENT ENACTS CORPORATE TAX MEASURES AIMED AT INCREASING INVESTMENT, OUR ANALYSIS INDICATES THAT

1. *The economy will expand significantly but this expansion will produce few direct benefits for the elderly.*

Over the next 25 years, investment oriented corporate tax measures can significantly enlarge the total size of the economic pie (Table 13). The difference between real GNP and its baseline value grows steadily over time, rising 4.2% above the baseline by 2005. This favorable result is largely a consequence of a 15.7% in-

crease in business investment, which is expected to grow at an annual rate of 3.6% compared with 3.1% in the baseline. The increase in investment leads to greater growth in productivity and, therefore, a lowering of inflation. Beyond 1986, the rate of inflation is expected to average about 0.3% per year below the baseline. This will provide a direct benefit to those elderly who receive significant income from fixed sources.

Investment Oriented Tax Cuts
General Economic Effects
(Averages Over Entire Simulation Period)

	Baseline 1981-2005	With Investment Oriented Two Cuts 1981-2005
Average Annual Growth Rates:		
Gross National Product	2.5	2.7
Consumption	2.4	2.5
Investment	3.1	3.6
Government Spending	2.1	2.1
Disposable Income	2.4	2.5
Other Economic Aggregates:		
CPI Inflation	7.5	7.2
Unemployment	6.3	6.3
Share of Personal Income in GNP (Percent)	81.9	81.7

Table 13

There are, however, some costs associated with these tax measures. Over the short-run, the housing sector may suffer somewhat as a result of increased demands for capital from the business sector. However, from 1990 on, total housing starts are above their baseline values as housing responds to the higher real incomes growing out of faster economic growth. The short-term housing downturn could be reversed if increased personal savings programs are linked with corporate investment incentives. A significant portion of personal saving often finds its way into housing. In addition to housing, employment will also suffer for a

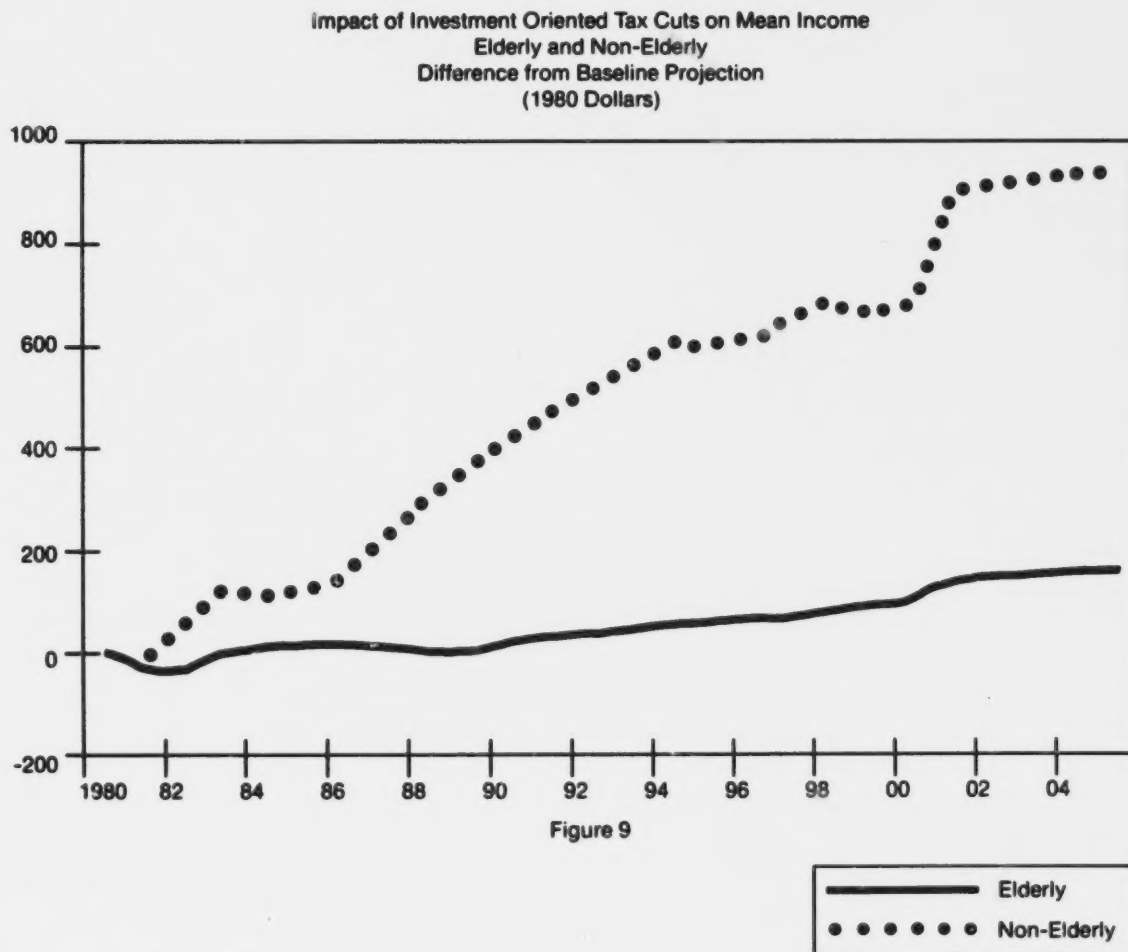
time as a consequence of increases in capital, but the effects are relatively small.

Although the increased economic growth produces direct benefits to all segments of the population, a disproportionate share of these benefits go to younger age groups in the absence of increased transfer programs (Figure 9). By 2005, average income of the elderly is expected to be only \$170 (1980 dollars) higher than in the baseline economy, an increase of about 1.1%. For younger workers, average income improves by \$930 (1980 dollars), 2.9% above the baseline.

This result underscores a key point: faster economic growth will have the greatest impact on those who most fully share in the functioning of the economy, especially wage earners. For the poor elderly (those without significant employment history) and those elderly groups less able to work, general economic growth will not affect their situation without im-

provement in direct government assistance programs, i.e. transfer programs.

Finally, to the extent that expanded economic growth favors wage earners more than non-wage earners, policies promoting expanded employment of the elderly (those shown to have positive effects for the elderly) will be enhanced.



2. The capacity of the economy to provide assistance to the elderly is significantly increased.

DRI's analysis of the outcome of increased elderly employment shows an increase in Federal revenues (fiscal dividend) and also a decrease in per-

sonal income taxes. In effect, increased elderly employment significantly expands the capacity of the economy to redistribute income to those elderly groups that are poor and can't benefit from expanded employment opportunities.

Unlike increased elderly employment, investment oriented corporate tax measures result in neither a fiscal dividend nor a personal income tax cut. The increased Federal revenues that would normally flow out of expanded economic growth are offset by the loss of revenue sustained by giving tax benefits to an expanding amount of investment. This might, at first glance, suggest that the capacity of the economy to assist the elderly has not been increased. However, this is not necessarily so.

The benefits realized by younger segments of the population and business could be shared with the elderly. Although this may require somewhat higher taxes, the net effect can leave all groups substantially better off than in the baseline economy. Just as the tax system can be used to create the benefits, it can also be used to redistribute them.

For example, if taxes of the non-elderly in 2005 are raised by \$100 per household, transfers to the elderly could be increased by about \$450 per household. Projections show that in 2005 there will be 97.6 million non-elderly households compared to 21.7 million elderly households. Each dollar of increased taxes levied per non-elderly household could finance \$4.50

in increased transfers per elderly household. Thus, while a \$100 tax increase would lower non-elderly pre-tax income from \$930 to \$830 above the baseline, the pre-tax average income of elderly households would move from \$170 to \$620 above the baseline. Considering the higher marginal tax rates of the non-elderly, this relatively small tax increase would almost close the considerable after-tax gap in income gains.

The tax increase required by the above example totals about \$9.8 billion in 2005. This would raise the effective personal tax rate projected under our corporate tax cut analysis from about 17.5% to 17.8% higher than the 17.6% rate projected for the baseline. Whether the non-elderly would support such a tax increase is a question of national will and values. But a stronger economy can create an environment that is more conducive to such transfers. Although the personal tax rate would be higher, the non-elderly would still have higher after-tax income.

Committee Conclusion

Based on our analysis, the Committee concludes that policies should be pursued to promote increased private investment and economic growth. In the long-run a robust, growing economy is the best assurance that the nation's elderly will enjoy an adequate level of economic well-being. In an increasingly competitive world, aggressive and innovative investment activity by our business sector is needed to assure plentiful jobs that will allow workers to provide for retirement through saving, pensions and social security entitlements. An increasing economic pie will reduce the social tensions of efforts to redistribute income to those groups unable to directly share in the nation's economic fortunes.

The Committee has looked only at a policy of tax incentives to promote business investment, and the analysis suggests that such a program does have a favorable impact on investment, economic growth, inflation and income. However, the Committee realizes that many policies have been proposed for promoting investment and/or economic growth—for example, policies that stimulate consumer demand. The Committee is not unanimous on the particular policies that should be followed to boost economic growth; however, we are unanimous in the priority we attach to economic growth as a national objective.

OUR ANALYSIS OF A GOVERNMENT TRANSFER PROGRAM GUARANTEEING AN ADEQUATE INCOME FOR THE ELDERLY INDICATES THAT

1. *Guaranteeing income adequacy for the elderly through increased transfers would have little impact on the aggregate economy but would require significant tax increases.*

Expanded income transfer programs are a direct way to address income adequacy problems of the elderly. While all of the other policy alternatives, including expanded elderly employment, increased personal saving and investment oriented corporate tax measures, provide some improvements in income adequacy relative to the baseline, *Table 14* clearly shows that only an income transfer program directly targeted on the poorest elderly can have a significant impact. Although the benefits to the elderly of an expanded transfer program are obvious, such a program raises a number of key questions: What would be the effects on the aggregate economy? Can the country afford such a program?

The analysis of an income transfer program guaranteeing an adequate income for the elderly shows little, if any, impact on the economy (*Table 15*). GNP, for example, never varies by more than 0.1% from the baseline. There is, however, a slight increase in inflation owing to the small increase in consumption accompanying a redistribution of income towards lower income individuals. The consumer price index is only 0.2% higher in 2005 than in the baseline.

Initial net costs for such a program would amount to \$18.6 billion (1980 dollars) in 1981, and gradually decline to about \$12 billion (1980 dollars) in 2005 (*Figure 10*). This decline reflects the continually improving income position of the elderly in the baseline economy relative to a fixed adequacy standard.

Percentage of Elderly with Inadequate Income, by Family Status: Summary Table*

	1979	1990	2005
Elderly Individuals			
Baseline	53.7	48.7	38.3
Increased Elderly Employment	53.7	46.8	35.3
Income Transfer Program	53.7	0.0	0.0
Increased Personal Saving	53.7	48.6	37.6
Investment Oriented Tax Cuts	53.7	48.7	38.4
Elderly Families			
Baseline	34.8	29.3	23.0
Increased Elderly Employment	34.8	28.7	22.0
Income Transfer Program	34.8	0.0	0.0
Increased Personal Saving	34.8	29.6	22.9
Investment Oriented Tax Cuts	34.8	29.5	23.0

*Adequate income is defined for elderly families by the BLS Intermediate Budget Level for a Retired Couple (\$8,562 in 1979), adjusted for inflation; for elderly single individuals by an analogously defined budget for retired individuals (\$4,941 in 1979).

Table 14

In the absence of any other changes in economic or social policy, the cost of increased transfers would require an increase in effective personal income tax rates averaging 0.4% over the 1980-2005 period. In 1981, these increased taxes would amount to about \$160 (1980 dollars) per person in the labor force and would thereafter decline as the real cost of the program declines.

Program of Guaranteed Income Adequacy For The Elderly
General Economic Impact
(Averages Over Entire Projection Period)

	Baseline 1981-2005 (1980 Dollars)	With Income Adequacy Transfers for the Elderly 1981-2005
Average Annual Growth Rates		
Gross National Product	2.5	2.5
Consumption	2.4	2.4
Investment	3.1	3.1
Government Spending	2.1	2.1
Disposable Income	2.4	2.4
Other Economic Aggregates		
CPI Inflation	7.5	7.5
Unemployment	6.3	6.3

Table 15

The merits of a guaranteed adequate income program for the elderly clearly do not rest on the effects of such a program on the overall economy. More, it is a choice that must be made on the basis of benefit to the elderly and tax burden on the non-elderly. In this regard, the results of DRI's analysis of increased elderly employment suggest an important possibility: **that the increased Federal receipts generated by expanded elderly employment be used to finance increased transfers to the elderly.** *Table 16* compares the expected cost of a guaranteed adequate income program with the increased potential Federal receipts coming from expanded elderly employment. This comparison shows that expanded employment could, over the 1980-2005 period, finance a substantial portion of the cost of the increased transfers, thereby reducing the need for increased personal taxes. Of course, this assumes that elderly employment increases as outlined here. This

may not be the case. Nevertheless, the comparison suggests that policies promoting increased elderly employment and transfer payments could be linked.

	Program of Guaranteed Elderly Income Increase in Annual Transfers (Billions of 1980 Dollars)	Higher Elderly Employment Increase in Potential Federal Revenues*
1985	18	2
1990	17	6
1995	16	10
2000	14	17
2005	12	21

*From Higher Elderly Employment

Table 16

**Total New Transfers to the Aged to Guarantee Income Adequacy
(Billions of 1980 Dollars)**

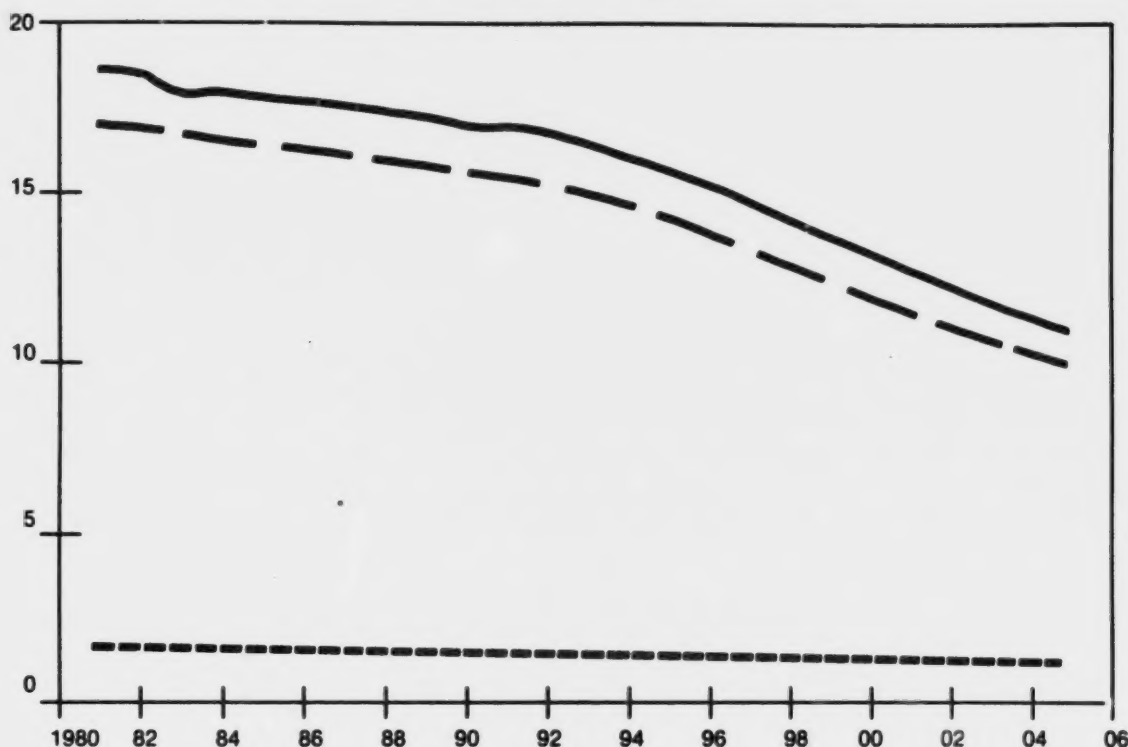


Figure 10

	Total New Transfers
	Net New Transfers
	New Transfers to Offset Wage and Salary Loss

Committee Conclusion

Based on the findings of this report, the Committee concludes that a program of increased income transfers to the elderly may be the only way to quickly and significantly reduce income inadequacy among older Americans. Our analysis suggests that the size of such transfers (about \$18 billion) would have a minimal impact on economic activity if financed through taxes.

Although the general economic impact of such transfers would be small, the tax burden on the nonelderly would be increased. In an environment of sluggish economic activity, such an increase in tax burdens could worsen intergenerational social tensions. To reduce the chance of such tensions, the Committee concludes that any program of income transfers should be coordinated with programs to boost economic growth and government resources.

Policies such as increased employment for older Americans would increase tax revenues available for transfers and reduce the need to increase taxes on younger persons. Policies aimed at general economic growth, such as investment oriented tax cuts, would raise the income levels of the nonelderly and make tax increases more palatable. Through a combination of increased transfers, personal saving incentives, expanded employment opportunities for the elderly and general economic growth policies, the nation can significantly relieve income inadequacy among the elderly, while improving the economic well-being of all groups in society.

**Supplementary Statement
to the report of the
Technical Committee on the Economy
White House Conference on Aging
by
Thelma Zwerdling and Bert Seidman**

We agree with much that is in this report and particularly its principal conclusion that "strong and sustained economic growth is essential to the current and future well being of the elderly."

We are, however, troubled by two major themes in the report which, we feel, could be seriously misconstrued to the detriment of the elderly and the nation as a whole:

1. We agree that there should be expanded payments "targeted on those elderly most in need and least able to provide for themselves." But such improvements in the income of low-income elderly persons should not be exclusively through means-tested welfare programs as the report could be construed. Instead, major efforts should be directed toward strengthening the income protection Social Security gives to lower income persons. Even if this is done, it will still be necessary to raise the payment levels of the Supplementary Security Income program in order to raise the incomes of the poorest of the elderly to a decent level.

2. We recognize the need for increased investment aimed at improved productivity and economic growth. However, the reliance the report suggests should be placed on opening up new tax loopholes in an effort to expand savings and investment would unduly benefit wealthy individuals and large corporations.

Appropriate and limited use of carefully drawn tax credits targeted on potential growth sectors of the economy might be beneficial. We do not think that savings, which in significant amounts are possible only for higher income persons, should receive any more favorable tax treatment than wages or other forms of income. Tax credits have the same effect as government subsidies or other government expenditures. They should not be used to favor the wealthy at the expense of the rest of the population.

The following Technical Committee Reports have been published:

Retirement Income

Health Maintenance and Health Promotion

Health Services

Social and Health Aspects of Long Term Care

Family, Social Services and Other Support Systems

The Physical and Social Environment and Quality of Life

Older Americans as A Growing National Resource

Employment

Creating an Age Integrated Society: Implications for Societal Institutions

Creating an Age Integrated Society: Implications for the Economy

Creating an Age Integrated Society: Implications for the Educational Systems

Creating an Age Integrated Society: Implications for Spiritual Well-Being

Creating an Age Integrated Society: Implications for the Family

Creating an Age Integrated Society: Implications for the Media

Creating an Age Integrated Society: Implications for Governmental Structures

Research in Aging

Experts from various fields were appointed by the Secretary of Health and Human Services to serve on 16 Technical Committees, each charged with developing issues and recommendations in a particular area for consideration as background material for the delegates to the 1981 White House Conference on Aging.